Congressional Budget Office

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Baseline Budget Projections

A Joint Seminar by the Congressional Budget Office
and the Congressional Research Service

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The Congressional Budget Office

CBO’s Role

To provide the Congress with objective, nonpartisan, and timely analyses of legislative proposals and of budgetary and economic issues to support the Congressional budget process

What CBO Helps the Congress With

- Developing a budget plan
- Implementing that budget plan
- Assessing the impact of proposed federal mandates
- Considering issues related to the budget and to economic policy

CBO’s Characteristics

- Advisory
- Objective
- Nonpartisan
- Responsive and transparent

CBO’s Process for Developing the Budget Baseline

What Is CBO's Baseline?

- A detailed projection for the current year and the ensuing 10 years of federal spending, revenues, net spending for interest, and resulting deficits or surpluses
- Based on CBO's economic forecast
- Incorporates the assumption that current laws governing taxes and spending generally remain in place
- Not a forecast of future budgetary outcomes; those depend on future Congressional action and other factors
- Generally provided two or three times a year
- Reported in the annual *Budget and Economic Outlook* and subsequent reports

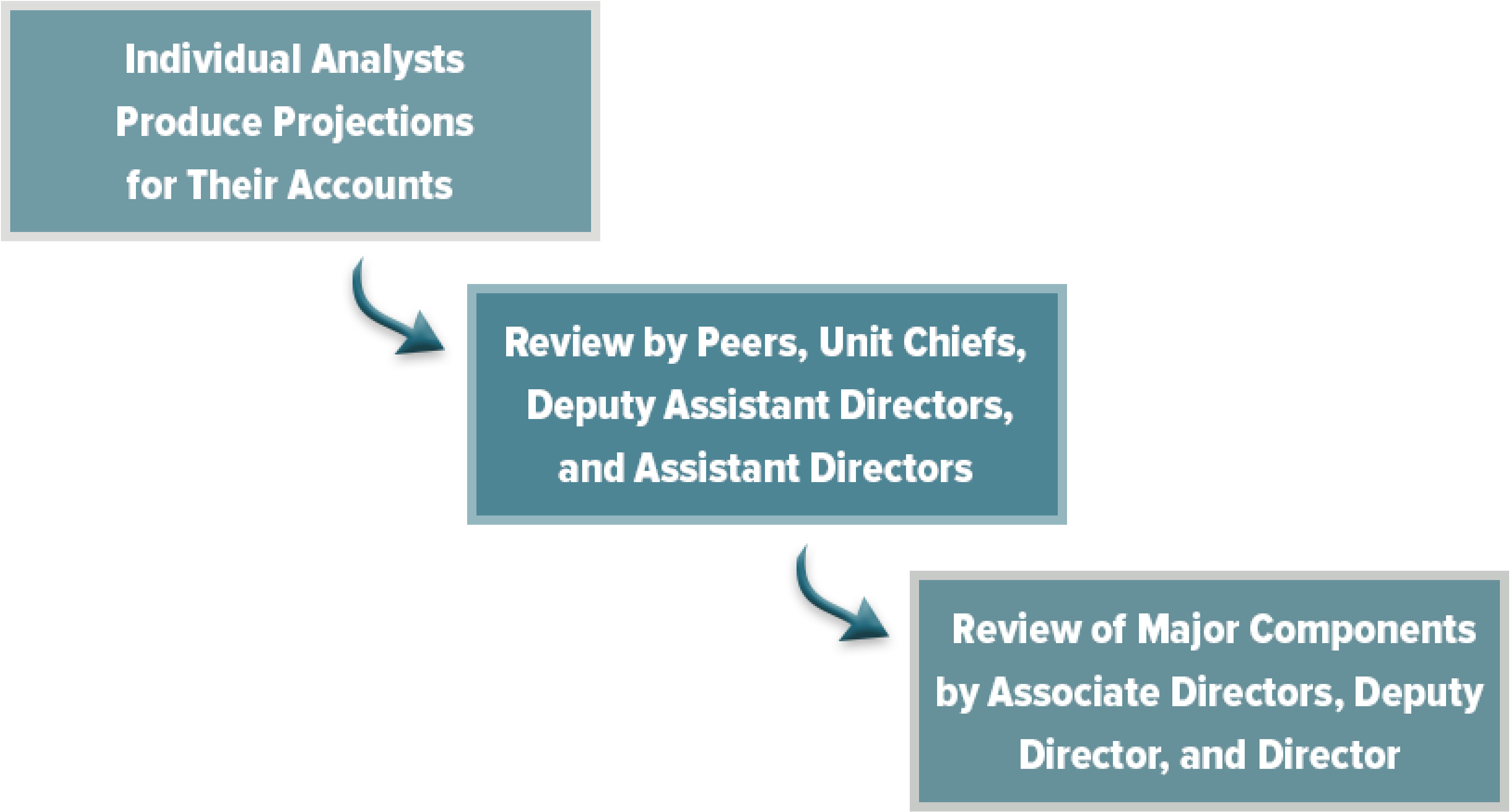
How Is the Baseline Constructed?

- Principles and rules mainly come from law, budget resolutions, House and Senate rules, and the 1967 *Report of the President's Commission on Budget Concepts*
- A key law is the Balanced Budget and Emergency Deficit Control Act, section 257
  - Defines the baseline
  - Sets out rules for projecting spending and receipts
  - Requires an assumption of full funding for entitlements
  - Directs the treatment of expiring programs and certain excise taxes

How Do CBO and the Congress Use the Baseline?

- A neutral benchmark for measuring budgetary effects of proposed changes in federal revenues and mandatory spending
- Basis for:
  - Cost estimates for proposed legislation
  - CBO’s analyses of the President’s annual budget
  - CBO’s budget options volume
  - Other reports (including those describing CBO’s long-term budget projections)
  - Assessments of multiyear budget trends
- Often a starting point for budget resolutions

How Is the Baseline Developed and Reviewed?



How Is CBO's Economic Forecast Developed and Reviewed?

Step 1: Background Analysis

- Develop preliminary forecast for exogenous variables (e.g., oil prices)
- Review recent data

Step 2: Preliminary Forecast

- Use macroeconometric model to develop preliminary forecast
- Incorporate preliminary federal tax and spending projections

Step 3: Internal and External Review

- Obtain input from CBO's senior staff and other divisions within the agency
- Obtain feedback from CBO's Panel of Economic Advisers and staff of Congressional budget committees

Step 4: Final Forecast

- Incorporate feedback and latest data to produce final forecast
- Transmit to CBO's budget and tax divisions to develop budget projections

How Does CBO Foster Accuracy in Its Projections?

- Baseline updates begin with a thorough analysis of prior-year spending and revenue collections for each account and revenue source.
- When it is appropriate, CBO uses historical patterns and experience to develop projections.
- The internal review process includes an assessment of the quality of past projections to identify opportunities to refine methods and improve the accuracy of projections.
- CBO solicits input from program experts at federal agencies and compares its projections with those prepared by others.

How Does CBO Address Uncertainty?

- All projections are subject to some degree of uncertainty about how closely they will correspond to actual outcomes.
- Projections for years farther in the future are more uncertain.
- The amount of uncertainty can vary depending on many factors, including data quality, possible administrative actions, behavioral responses to changes in policies, and the variability of underlying factors.
- Analysts often test the sensitivity of their projections to identify the range of possible outcomes for those projections.
- CBO’s goal is to develop estimates that are near the middle of the range of possible outcomes.

What Are the Components of the Baseline?

The Baseline for Mandatory Spending

- Includes spending for programs governed by permanent law, including payments to people, businesses, and state and local governments
- The largest mandatory programs are Social Security, Medicare, Medicaid, and the retirement program for civilians working for the federal government.
- Generally reflects current law (statutory language and administrative policy)
- Is driven by projections of key variables that affect cash flows:
  - Enrollment by beneficiaries and their average costs
  - Factors underlying CBO’s macroeconomic forecast
- By law, the baseline reflects an assumption that certain large entitlement programs (such as the Supplemental Nutrition Assistance Program) continue after their expiration date.

The Baseline for Discretionary Spending

- Spending stemming from annual appropriation acts
- Funding
  - Starts with the enacted amount for the current year
  - For individual accounts, incorporates adjustments for inflation for future years
  - Totals constrained by caps through 2021
- Outlays
  - Depends on how quickly funding is spent, with that rate differing widely among programs and accounts
  - For a given year, depends on funding in that year and prior years because funding is usually spent gradually over several years

The Baseline for Revenues

- Is projected for each source
  - More than 50 sources
  - Largest share of total (49 percent) is from individual income taxes: $1.6 trillion in 2018
- Usually reflects current law
  - Reductions in the individual income tax are assumed to expire as scheduled at the end of 2025
  - Exception: Excise taxes dedicated to trust funds are extended at current rates
- Is sensitive to economic projections
- Tends to increase as a percentage of gross domestic product (GDP) over time

The Baseline for Net Spending for Interest

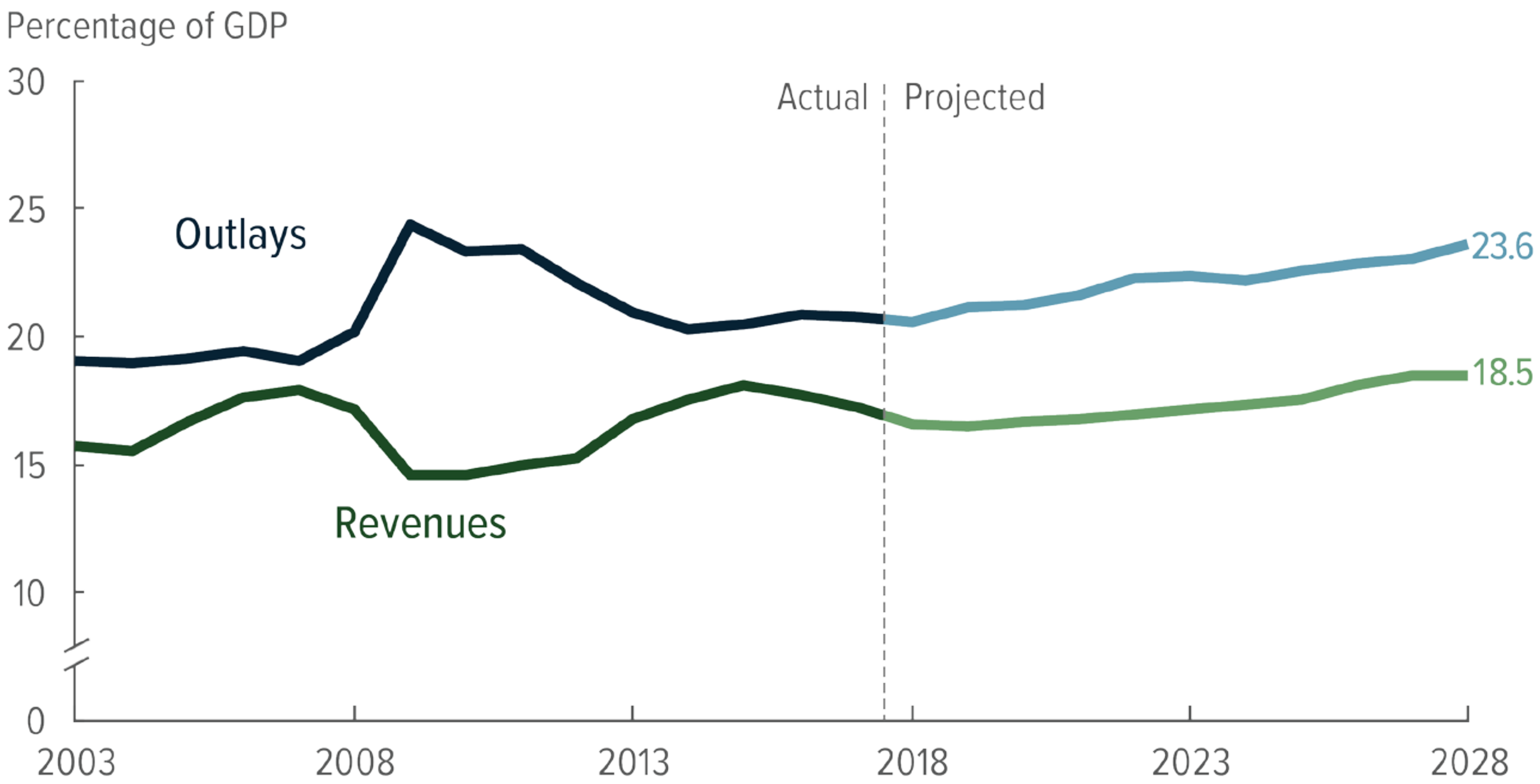
- CBO's model:
  - Incorporates existing stock of outstanding debt and associated interest rates
  - Integrates projections of future deficits and other financing obligations
  - Uses CBO's forecast for interest rates
  - Relies on a projection of the mix of securities that the Treasury could issue
- CBO's projections also include offsets from interest income received on loans and cash balances.

Projections by CBO and OMB

- Both CBO and OMB develop baselines that reflect the budgetary effects of current law.
- OMB also coordinates the President’s budget proposals as part of the annual budget submission. Those proposals:
  - Reflect the effects of the President’s legislative, regulatory, and administrative changes
  - Usually have significantly different spending and revenue projections from those in CBO’s baseline because they incorporate proposed policy changes
- In CBO’s *Analysis of the President’s Budget*, the Administration’s proposals are estimated in relation to CBO’s baseline

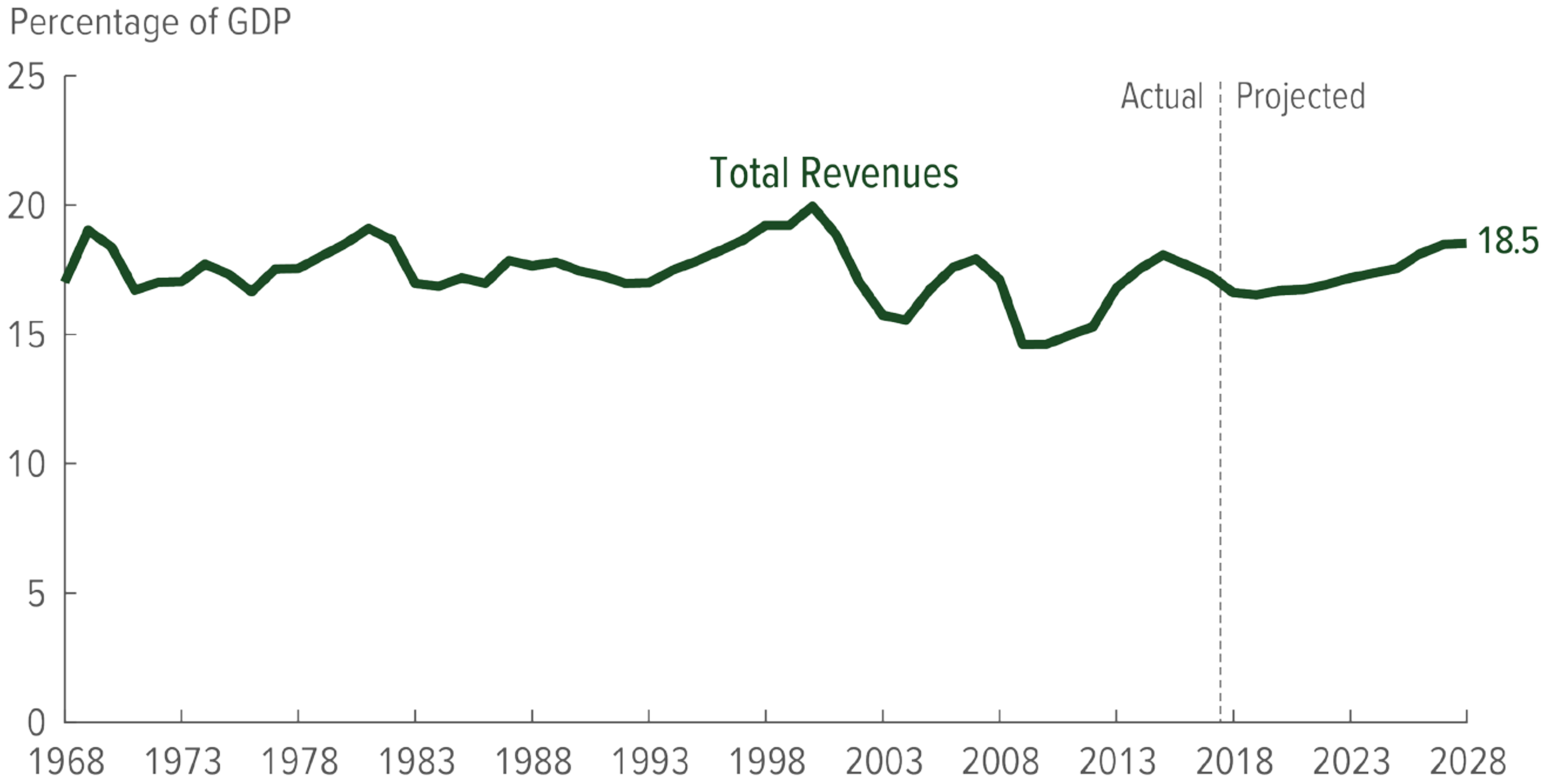
What Are CBO’s Current Baseline Projections?

Revenues and Outlays



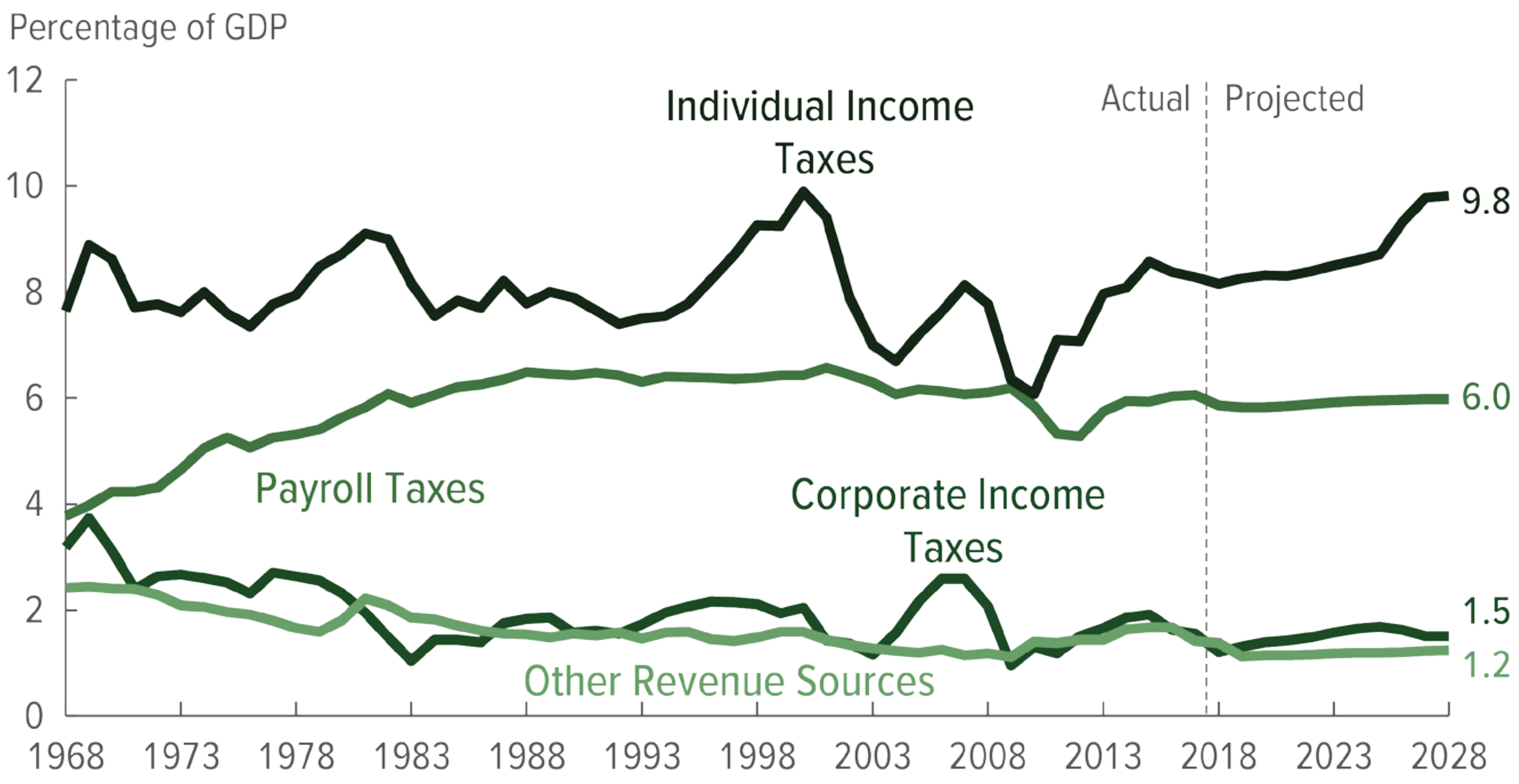
In CBO's baseline, **revenues** and **outlays** increase in most years through 2028, and the gap between them remains large.

Total Revenues



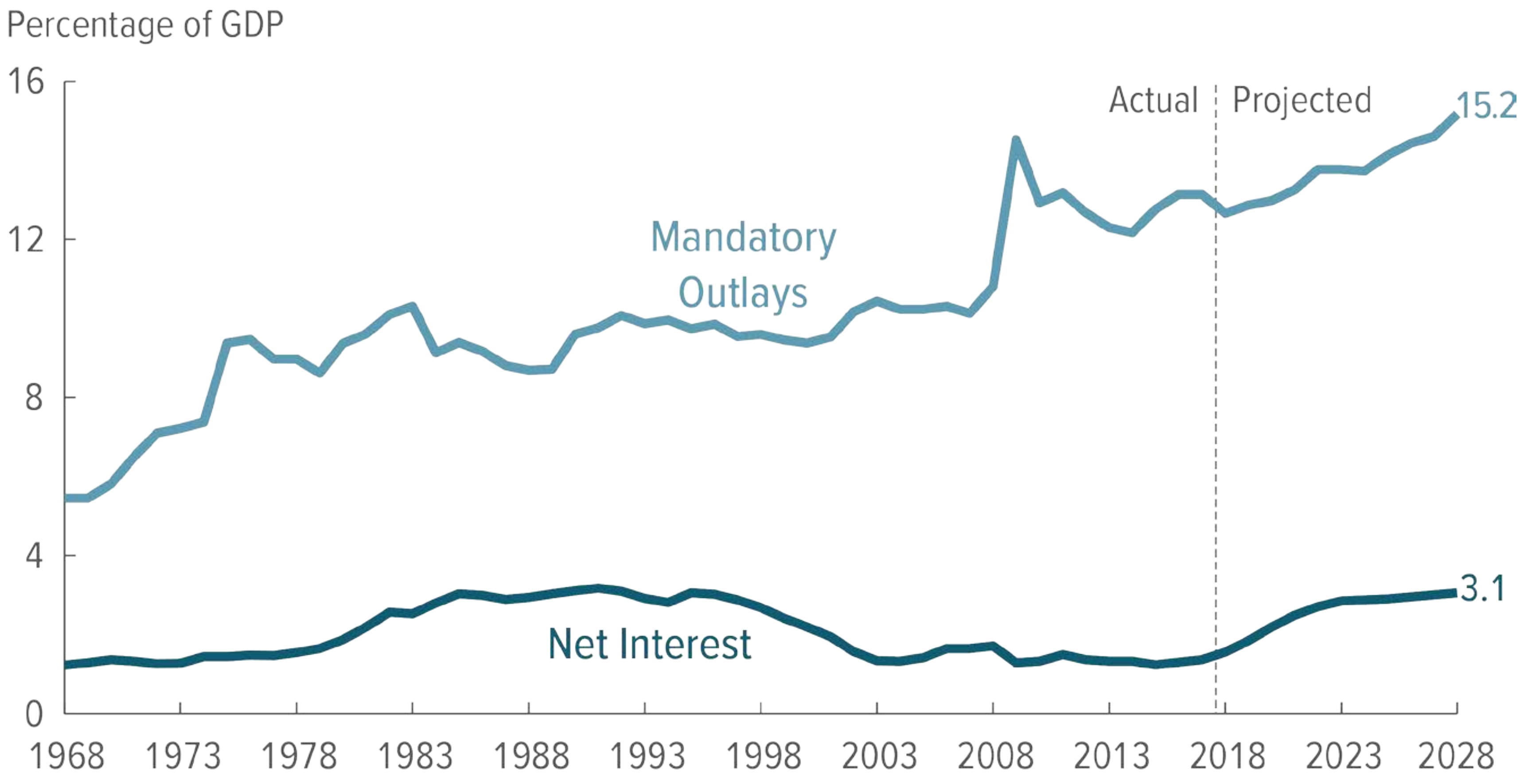
Total revenues rise as a share of GDP mostly because of scheduled changes in tax provisions, wage growth, the taxation of individual income at higher rates when incomes rise faster than inflation, and growing distributions from tax-deferred retirement accounts.

Components of Revenues



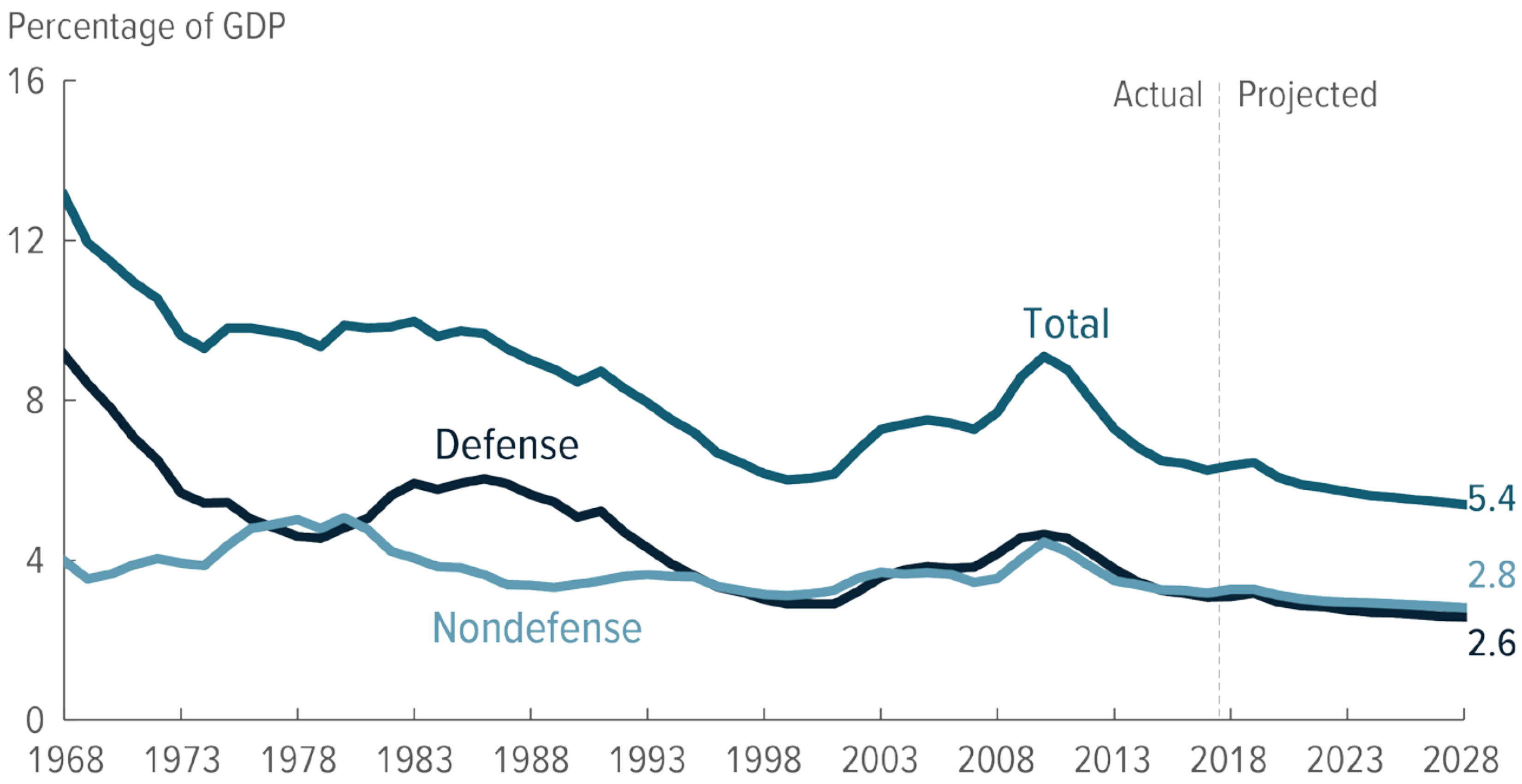
Individual income tax **revenues** rise sharply after the expiration at the end of 2025 of temporary provisions in the 2017 tax legislation.

Mandatory Outlays and Net Spending for Interest



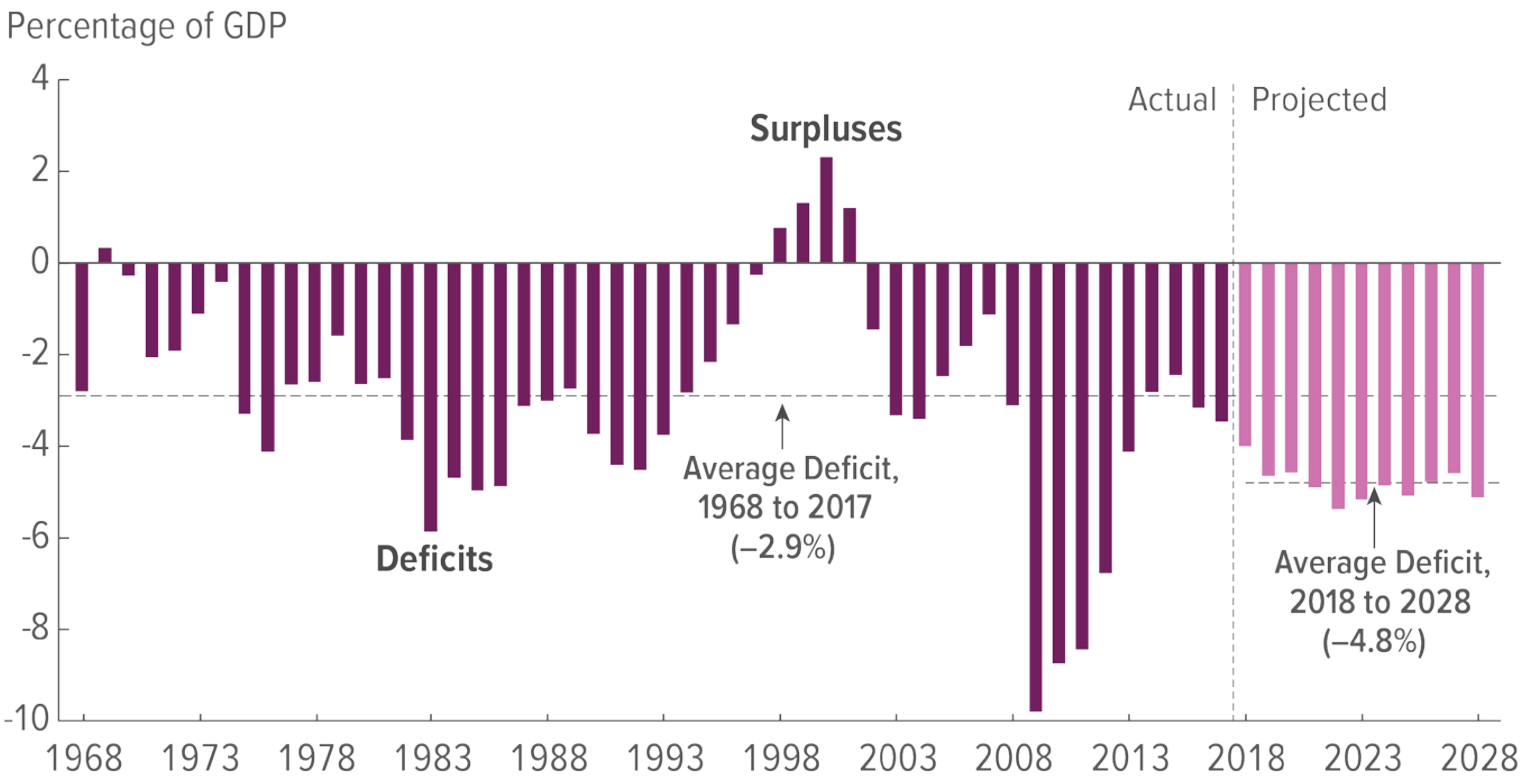
Rising spending for Social Security and Medicare boosts **mandatory outlays** while growing debt and higher interest rates push up **net spending for interest.**

Discretionary Spending



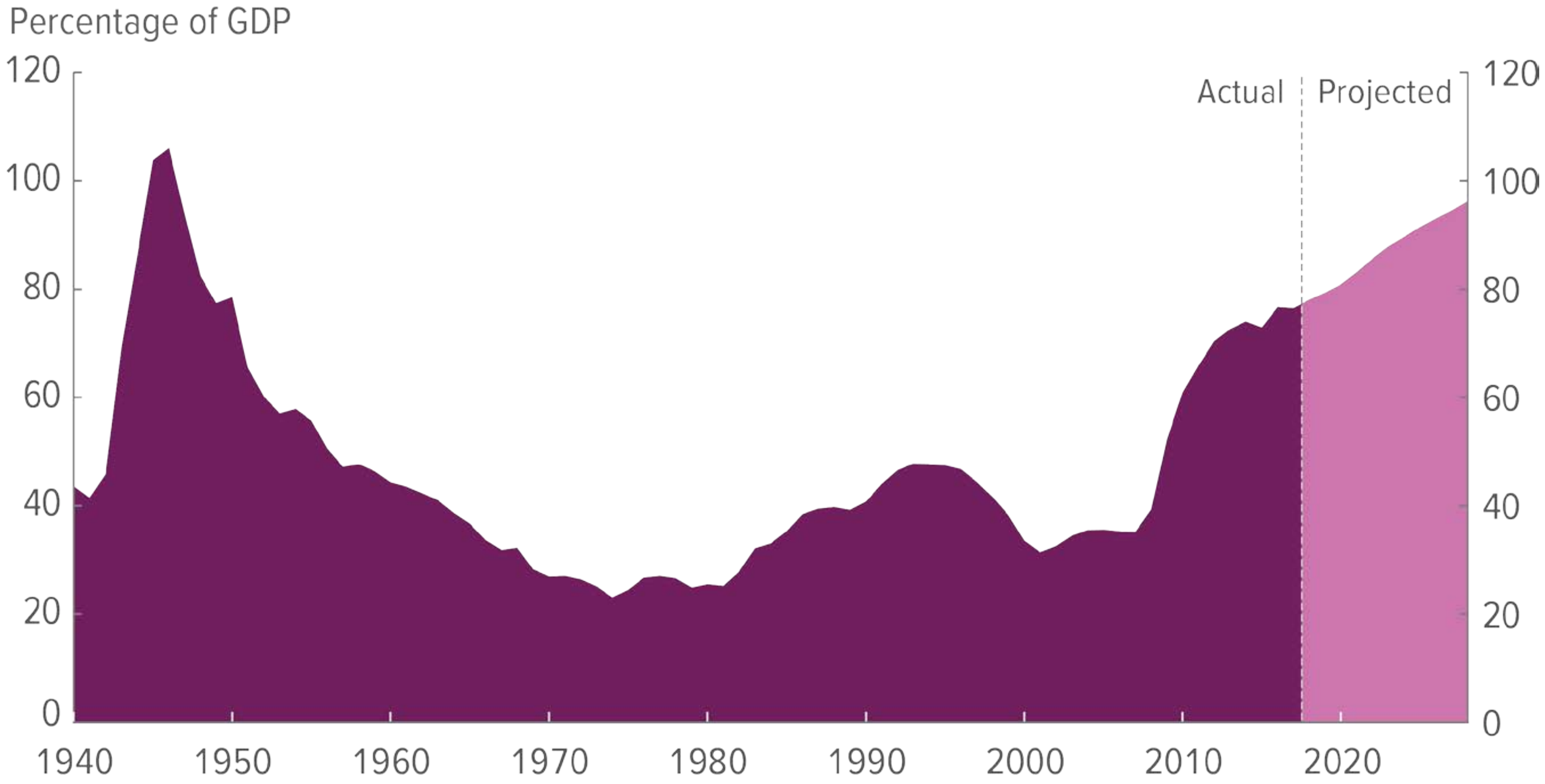
Discretionary spending projections incorporate budgetary caps through 2021 and the assumption that discretionary budget authority grows with inflation thereafter. Discretionary budget authority rises in the near term because of recent legislation but then declines in 2020 because of scheduled reductions to the caps.

Deficits



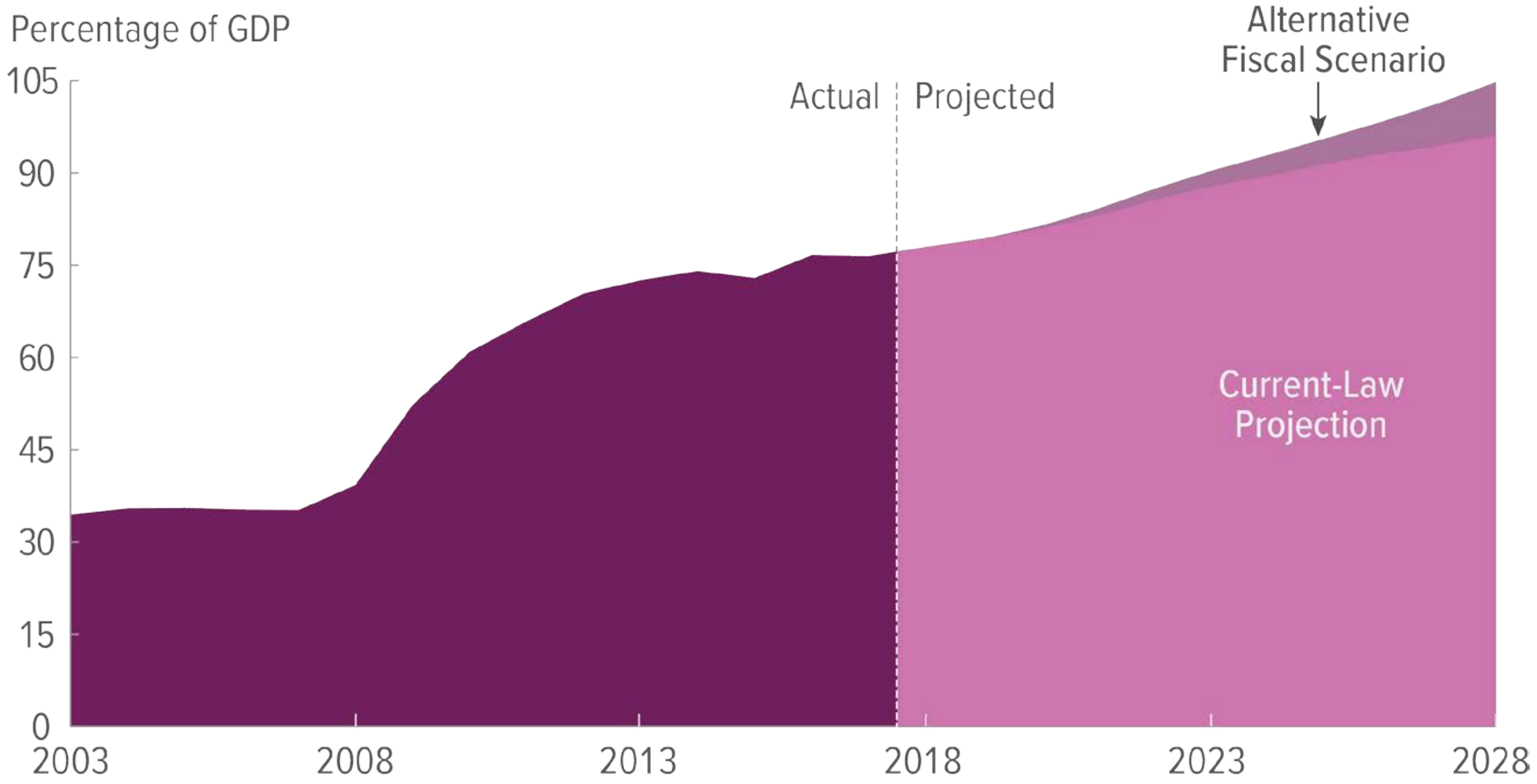
Deficits as a percentage of GDP increase over the next few years and then largely stabilize. Deficits exceed their 50-year average throughout the 2018–2028 period.

Federal Debt



Federal debt held by the public rises from 78 percent of GDP ($16 trillion) at the end of 2018 to 96 percent of GDP ($29 trillion) by 2028—the largest increase since 1946 and well more than twice the average over the past five decades.

Federal Debt in an Alternative Fiscal Scenario



Under an alternative fiscal scenario (in which current law is altered to maintain major policies), substantial tax increases and spending cuts do not occur as scheduled under current law and more typical amounts of emergency funding are provided than the actual amounts for 2018. **Debt held by the public** reaches about 105 percent of GDP by the end of 2028.